

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



20TH DISTRICT AGRICULTURAL ASSOCIATION
GOLD COUNTRY FAIR
AUBURN, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

AUDIT REPORT #08-018
FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

20TH DISTRICT AGRICULTURAL ASSOCIATION
GOLD COUNTRY FAIR
AUBURN, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Pamela Vallerga

Audit Chief
Assistant Audit Chief
Auditor

AUDIT REPORT NUMBER

#08-018

20TH DISTRICT AGRICULTURAL ASSOCIATION
GOLD COUNTRY FAIR
AUBURN, CALIFORNIA

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Ms. Norma Fox, President
Board of Directors
20th DAA, Gold Country Fair
1273 High Street
Auburn, California 95603

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 20th District Agricultural Association (DAA), Gold Country Fair, Auburn, California, as of December 31, 2007 and 2006, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 20th DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

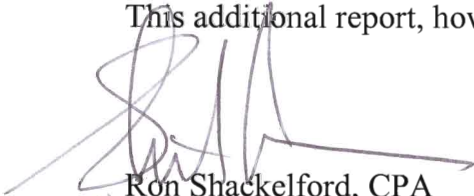
We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 20th DAA, Gold Country Fair, as of December 31, 2007 and 2006, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 20th DAA, Gold Country Fair has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.



Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #08-018, on the 20th DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 20th DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.



Ron Shackelford, CPA
Chief, Audit Office

June 27, 2008

**20TH DISTRICT AGRICULTURAL ASSOCIATION
GOLD COUNTRY FAIR
AUBURN, CALIFORNIA**

**STATEMENTS OF FINANCIAL CONDITION
December 31, 2007 and 2006**

	Account Number	2007	2006
Cash and Cash Equivalents	111 - 118	\$ 294,160	\$ 168,851
Accounts Receivable, Net	131	43,642	52,126
Deferred Charges	143	5,579	477
Construction in Progress	190	104,982	-
Land	191	54,370	54,370
Buildings and Improvements, Net	192	913,594	870,885
Equipment, Net	193	114,824	3,325
TOTAL ASSETS		1,531,151	1,150,034
LIABILITIES AND NET RESOURCES			
Liabilities			
Accounts Payable	212	32,058	4,096
Accrued Payables	221 - 226	880	950
Deferred Income	228	98,999	15,505
Guaranteed Deposits	241	300	4,865
Compensated Absences Liability	245	9,430	12,222
Total Liabilities		141,667	37,638
Net Resources			
Reserve for Junior Livestock Auction	251	9,052	10,106
Net Resources - Operations	291	192,662	173,710
Net Resources - Capital Assets, Net of Debt	291.1	1,187,770	928,580
Total Net Resources Available		1,389,484	1,112,396
TOTAL LIABILITIES AND NET RESOURCES		\$ 1,531,151	\$ 1,150,034

**20TH DISTRICT AGRICULTURAL ASSOCIATION
GOLD COUNTRY FAIR
AUBURN, CALIFORNIA**

**STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
Years Ended December 31, 2007 and 2006**

	Account Number	2007	2006
REVENUE			
State Apportionments	312	\$ 150,000	\$ 150,000
F&E Project Funds, Contributions	319, 330	339,234	196,191
Admissions	410	157,016	141,343
Commercial Space	415	32,400	27,275
Carnival	421	81,315	84,573
Concessions	422	65,658	60,917
Exhibits	430	9,640	9,321
Horse Shows	440	5,487	4,914
Attractions - Fairtime	460	21,818	19,031
Miscellaneous Fair	470	66,594	62,804
Junior Livestock Auction	476	15,228	18,174
Non-Fair Revenue	480	372,398	330,493
Prior Year Adjustment	490	6,446	4,219
Other Revenue	495	81,544	9,372
Total Revenue		<u>1,404,778</u>	<u>1,118,627</u>
EXPENSES			
Administration	500	242,024	201,845
Maintenance and Operations	520	364,241	314,832
Publicity	540	47,407	43,523
Attendance	560	26,362	25,764
Miscellaneous Fair	570	46,548	48,390
Junior Livestock Auction	576	16,281	14,888
Premiums	580	17,755	19,148
Exhibits	630	98,799	95,859
Horse Shows	640	4,113	3,052
Attractions - Fairtime	660	116,397	98,239
Prior Year Adjustments	800	(956)	(48,375)
Cash Over/Short from Ticket Sales	850	301	61,812
Depreciation Expense	900	98,373	66,100
Reimbursable Expenses	930	50,045	52,981
Total Expenses		<u>1,127,691</u>	<u>998,059</u>
RESOURCES			
Net Change - Income / (Loss)		277,087	120,569
Resources Available, January 1		1,112,396	991,826
Resources Available, December 31		<u>\$ 1,389,484</u>	<u>\$ 1,112,396</u>

**20TH DISTRICT AGRICULTURAL ASSOCIATION
GOLD COUNTRY FAIR
AUBURN, CALIFORNIA**

**STATEMENTS OF CASH FLOWS - REGULATORY BASIS
Years Ended December 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of Revenue Over Expenses (Expenses Over Revenue)	\$ 277,087	\$ 120,569
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	8,484	44,065
(Increase) Decrease in Deferred Charges	(5,102)	(302)
Increase (Decrease) in Deferred Income	83,494	(53,709)
Increase (Decrease) in Accounts Payable	27,962	(5,847)
Increase (Decrease) in Other Liabilities	(70)	345
Increase (Decrease) in Compensated Absence Liability	(2,792)	(14,202)
Increase (Decrease) in Guarantee Deposits	(4,565)	(9,029)
Total Adjustments	<u>107,411</u>	<u>(38,679)</u>
Net Cash Provided (Used) by Operating Activities	<u>384,499</u>	<u>81,890</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase (Decrease) in Investments in Capital Assets	(104,982)	-
(Increase) Decrease in Buildings & Improvements	(42,708)	(58,865)
(Increase) Decrease in Equipment	<u>(111,500)</u>	<u>4,521</u>
Net Cash Provided (Used) by Investing Activities	<u>(259,190)</u>	<u>(54,344)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
	<u>-</u>	<u>-</u>
Net Cash Provided (Used) by Financing Activities	<u>-</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	125,309	27,546
Cash at Beginning of Year	168,851	141,305
CASH AT END OF YEAR	<u><u>\$ 294,160</u></u>	<u><u>\$ 168,851</u></u>

**20TH DISTRICT AGRICULTURAL ASSOCIATION
GOLD COUNTRY FAIR
AUBURN, CALIFORNIA**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007 and 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The 20th District Agricultural Association (DAA) was formed on April 1, 1937, for the purpose of sponsoring, managing, and conducting the Gold Country Fair each year in Auburn, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAA's to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the

reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are capitalized and depreciated. Buildings and improvements are depreciated over a period of 30 years, and purchases of equipment are depreciated over five years. Amounts spent on repair and maintenance costs are expensed as incurred by the Fair. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. Amounts spent on projects that have not been placed in service are recorded in Account #190, Construction-in-Progress and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Sales Taxes – The State of California imposes a sales tax of 7.25% on all of the DAA's sales of merchandise. The DAA collects that sales tax from customers and remits the entire amount to the state Board of Equalization.

The DAA's accounting policy is to exclude the tax collected and remitted to the State from revenues and cost of sales.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2 CASH AND CASH EQUIVALENTS

The following list of cash and cash equivalents were held by the DAA as of December 31:

	<u>2007</u>	<u>2006</u>
Petty Cash	\$ 200	\$ 200
Cash in Bank – Operating	4,448	3,020
Cash in Bank – Premium	-	500
Cash in Bank – Payroll	1,000	792
Cash in Bank – JLA	502	8,249
Cash in Bank – Time Deposits	<u>288,010</u>	<u>156,090</u>
Total Cash and Cash Equivalents	<u>\$ 294,160</u>	<u>\$ 168,851</u>

NOTE 3 ACCOUNTS RECEIVABLE

The DAA is required to record an allowance for doubtful accounts based on estimates of collectibility.

	<u>2007</u>	<u>2006</u>
Accounts Receivable - Trade	\$ 52,983	\$ 54,554
Allowance for Doubtful Accounts	<u>(9,341)</u>	<u>(2,428)</u>
Accounts Receivable - Net	<u>\$ 43,642</u>	<u>\$ 52,126</u>

NOTE 4 PROPERTY AND EQUIPMENT

Buildings and improvements, and equipment at December 31, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>
Building & Improvements	\$ 2,865,619	\$ 2,759,546
Less: Accumulated Depreciation	<u>(1,952,025)</u>	<u>(1,888,661)</u>
Building & Improvements - Net	<u>\$ 913,594</u>	<u>\$ 870,885</u>

Equipment	\$ 214,231	\$ 56,391
Less: Accumulated Depreciation	<u>(99,406)</u>	<u>(53,066)</u>
Equipment - Net	<u>\$ 114,824</u>	<u>\$ 3,325</u>

NOTE 5 **RETIREMENT PLAN**

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 6 **RECLASSIFICATION**

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

**20TH DISTRICT AGRICULTURAL ASSOCIATION
GOLD COUNTRY FAIR
AUBURN, CALIFORNIA**

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 20th DAA Board of Directors
1	Chief Executive Officer, 20th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



20TH DISTRICT AGRICULTURAL ASSOCIATION
GOLD COUNTRY FAIR
AUBURN, CALIFORNIA

MANAGEMENT REPORT #08-018

YEAR ENDED DECEMBER 31, 2007

20TH DISTRICT AGRICULTURAL ASSOCIATION
GOLD COUNTRY FAIR
AUBURN, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2007

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Pamela Vallerga

Audit Chief
Assistant Audit Chief
Auditor

MANAGEMENT REPORT NUMBER
#08-018

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Norma Fox, President
Board of Directors
20th DAA, Gold Country Fair
1273 High Street
Auburn, California 95603

In planning and performing our audit of the financial statements of the 20th District Agricultural Association (DAA), Gold Country Fair, Auburn, California, for the year ended December 31, 2007, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Gold Country Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 20th DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 20th DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute, assurance that: (1) only authorized transactions are executed; (2) transactions are properly



recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 20th DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 20th DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 20th DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 20th DAA and compliance with state laws and regulations, we identified five areas with reportable conditions that are considered weaknesses in the Fair's operations: Fair acquisition of tents, excessive payments, accounting for fixed assets, junior livestock auction, and standard agreements. We have provided 12 recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 20th DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

REPORTABLE CONDITIONS

FAIR ACQUISITION OF TENTS

The Fair did not properly account for tents that were either purchased by the Fair or donated to the Fair over a two-year period.

In April 2006, the Fair entered into an agreement with an interim renter to receive “several tents and trailers” as a donation. Prior to donating two tents, the interim renter obtained an independent appraisal dated April 19, 2006 valuing the two tents at \$57,238. This agreement included terms for a tent setup fee of \$1,000 to be charged to the interim renter, effective for seven years. However, the Fair did not receive F&E approval for this agreement.

Subsequent to the April 2006 agreement, the Fair entered into a memorandum of understanding (MOU) with the same interim renter. On April 23, 2007, the Fair received a \$70,000 donation from the interim renter with the understanding that the Fair was to use the money to purchase three tents from a specific vendor. This vendor sold 3 tents to the Fair for \$70,000 as well as donating an additional nine smaller tents, trailers, and miscellaneous items at no charge. Our office noted that the Fair did not follow the State’s purchasing guidelines as it related to this transaction. The Fair was delegated the authority to make purchases in the amount of \$50,000 by Department of General Services. Although the Fair was given \$70,000 to purchase the tent, the Fair must still follow State guidelines as it relates to purchases made.

On December 12, 2007, the manager of the Fair forwarded the vendor a donor acknowledgement letter identifying the receipt of three large tents and nine smaller tents. The donor acknowledgement letter identified the fair market value of the tents and related equipment as \$160,302, and noted \$90,302 as a donation to the 20th DAA. However, these amounts were provided by the vendor rather than an independent third party. Although our office agrees that the Fair should provide a receipt to the vendor, our office questions whether the Fair should rely on vendor’s estimates. An independent third party appraisal would be much more appropriate.

After receiving the tents, in May 2007, the manager incorrectly capitalized the three large tents within the general ledger at \$70,000 and began depreciating them over a period of five years. Furthermore, in October 2007, the two tents received as a donation from the previous year were capitalized at \$46,620 (2/3 of \$70,000). However, the amounts used to capitalize the tents were incorrect based on the independent appraisal by the third party tent vendor.

The Financial Accounting Standards Board (FASB) Statement #116, and the Accounting Procedures Manual (APM) specify that all contributions received should be recorded in the period received at the fair market value (FMV). Furthermore, the Internal Revenue Service (IRS) requires a qualified appraisal to be obtained for claimed contributions over \$5,000. The two independent appraisals received in April 2006 and May 2008 serve as the best source to value all the tents received by the Fair. The Fair should use the independent appraisals to value all the tents it received from the interim renter and the tent vendor in Arizona.

It should be noted that the Fair elected not to capitalize the nine smaller tents it purchased within its general ledger because the manager deemed them as excessively used and worn, with their purpose to serve mainly as replacement parts for the larger tents. The May 2008 independent appraisal identifies a formula that would have valued the nine smaller tents at approximately \$9,200 each. This value exceeds the Department of Finances asset capitalization criteria of \$5,000 and required the smaller tents to be capitalized. Upon notification, the manager provided our office with quotes from two tent vendors that noted a brand new tent the same size as the nine received could be purchased at approximately \$9,500. The manager estimates that based on their condition, the nine smaller tents are worth approximately half of the cost of a new tent their size, approximately \$4,700 each. Therefore, capitalizing the nine tents would overstate the Fair's assets and accordingly should be conservatively accounted for as non-monetary assets. However, the Fair must tag the equipment with a property ID number and have the tents readily available for audit purposes to ensure the fixed assets are properly controlled.

Recommendations

- 1. The Fair should make the necessary correcting journal entries that ensure the fair market value of the tents is recorded in the general ledger and subsequent property ledger. All of the tent equipment received by the Fair should be permanently marked/identified as official State property belonging to the 20th District Agricultural Association.*
- 2. The Fair should ensure all financial transactions and related correspondence are conducted on professional stationery and official Fair correspondence. This information should be readily available for anyone, including board members, for review upon request.*
- 3. The Fair should follow proper purchasing guidelines.*
- 4. In the future, the Fair should ensure all written agreements entered into with third parties clearly state all the terms and conditions. The manager of the Fair should not exceed the level of authority delegated by the Board of Directors. This will help avoid any confusion as to responsibilities and obligations of parties in the future. Agreements that exceed the limits as established in Division of Fairs and Expositions (F&E) Contract Manual should be forwarded to F&E with sufficient lead time to ensure a timely review.*

EXCESSIVE PAYMENTS

According to the Fair's payroll records, two employees of the Fair cashed paid leave hours in excess of State limitations. In 2007, the Fair's compensated leave records show one exempt employee cashing 188 vacation/holiday credit hours totaling approximately \$6,792. A second rank-and-file employee cashed 160 vacation hours totaling approximately \$3,107. The State does not allow employees to cash out their leave balances unless authorized by the Department of Personnel Administration (DPA). In 2007, DPA issued a letter to all state agencies stating that exempt employees were allowed to cash out a maximum of 40 compensated leave hours. There was no allowance for rank-and-file employees to cash out any hours during that period. Based on the maximum hours allowed, the employees

improperly cashed out approximately \$5,347 and \$3,107 in excess of DPA's authorized limitations.

Recommendations

5. *The Fair should establish accounts receivable for the two employees and collect the amounts paid for compensated leave in excess of DPA approved limits.*
6. *In the future, the Fair should comply with all State rules and regulations governing payroll and restrict the cashing of paid leave to the maximum limitation established by DPA.*

ACCOUNTING FOR FIXED ASSETS

The Fair did not properly support all amounts reported as capital improvements in Account #192, Buildings and Improvements. Our office noted an aggregate amount of \$12,105 was capitalized under the heading of "Capital Improvements;" however, the specifics of the improvements showed items that either did not meet the capitalization criteria or were amounts that should have potentially been allocated to another project's capitalization costs. The Department of Finance (DOF) asset capitalization criteria requires the capitalization of assets that cost more than \$5,000 and have a useful life in excess of one year.

Recommendations

7. *The Fair should remove the \$12,105 item denoted as "Capital Improvements" from its property ledger and G/L Account #192, Buildings and Improvements. Additionally, the Fair should research which costs, if any, should have been allocated to other capital projects and document and capitalize these amounts accordingly.*
8. *The Fair should ensure it is properly tracking its costs for both capital projects and non-capital expenditures. Amounts related to capital projects should be included as a component cost of the project, capitalized, and depreciated. Costs for non-capital expenditures should be expensed in the year they are incurred.*

JUNIOR LIVESTOCK AUCTION (JLA)

The Fair has not adequately reconciled Account #251, JLA Reserve, to the corresponding bank Account #117, Cash-JLA, for the past several years. According to the Accounting Procedures Manual (APM), Section 2, 5.1, the balance in the auction account, adjusted for accounts receivable and accounts payable, must equal Account #251, JLA Reserve, at year-end. This is a prior audit finding.

Recommendation

9. *The Fair should comply with APM, Section 2, 5.1 and annually reconcile Account #251, JLA Reserve, to the JLA Cash Account.*

STANDARD AGREEMENTS

The Fair made payments to three contractors in excess of the contractual amounts without creating a new contract or amending the existing contract. Per APM Section 3, 1.1, to indicate approval of revisions or amendments to contract terms, changes must be initialed by both parties.

Another contractor had two agreements in place that represented the sum total the Fair paid; however, the total amount exceeded bid requirements for the contractor's services, and no bids were obtained. Per the F&E Contract Manual and PCC 10335, bids must be obtained for all service agreements over \$5,000. Also, the Fair provided Request for Proposal (RFP) documentation on some of the agreements that required bidding, but there was no evidence that the formal bid process had been adhered to, since no other bid paperwork was present and no notice of award was provided.

Although the Fair's contracts appeared to be effective for only a single year, some of the contracts were, in fact, long-term agreements resulting from RFP documentation that included renewable options. The Fair was unable to provide the originating documentation for agreements that appear to have been in effect for greater than a one-year term, so we were unable to determine whether the single-year agreements agreed to the contract terms established by the original, multi-year agreements.

Recommendations

- 10. Contracts that the Fair enters into should reflect the accurate and full amounts due under the agreement. Should it be necessary to change the contract terms, the Fair should either amend the existing contract or execute a new contract. New agreements with a contractor for an extension of the same existing services to be performed by that party should be treated as an addition to the original contract amount and will require bids when that amount exceeds \$5,000. Additionally, when an increase in payment terms of the contract is necessary, the Fair should obtain F&E approval for the increase.*
- 11. The Fair should adhere to the bid process as required by the F&E Contract Manual, including posting a proposed award of contract for at least five working days in a public place prior to the contract being awarded as required by bid protest procedures.*
- 12. The Fair should refrain from executing another agreement with a contractor for services that have already been contracted under an existing agreement.*

NON-REPORTABLE CONDITIONS

CASH ACCOUNTS

An examination of the Fair's cash accounts revealed the following conditions:

- a. Payments totaling \$2,802 were scheduled through the Fair's online banking system to be remit on January 16, 2008; however, the Fair reduced its cash balance and its liabilities that should have been reflected as still outstanding on December 31, 2007. Since the payments were not effective until the January 2008, the amounts were still outstanding liabilities at year-end and not a reduction of cash. As a result, both the Fair's cash and liabilities were understated \$2,802 at year-end 2007.
- b. The Fair recorded approximately \$1,900 as cash in its LAIF account, when that amount had not yet been received and should have been established as a receivable at year-end.

Recommendations

The Fair should maintain proper accountability for its cash accounts. Payments that will not be effective until the following year should be reflected as outstanding liabilities at year-end, and the cash account should not be decreased until the payment is effective.

The Fair should record LAIF interest due for fourth quarter but outstanding as of year-end as a receivable rather than cash.

ACCOUNTS PAYABLE

Our office noted no liability was established for approximately \$2,947 in invoices outstanding at year-end 2007 that were subsequently paid in 2008. The accrual basis of accounting requires the recognition of expenses within the period incurred. If expenses have been incurred but not yet invoiced, an effort should be made to reasonably estimate and accrue the liability for the amount owed. This should be done prior to closing the accounting records and preparing the annual STOP.

Recommendation

The Fair should follow proper accrual accounting procedures and establish the liability for all amounts outstanding and unpaid at year-end.

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE

GOLD COUNTRY FAIR – Audit Response (FY 2007)

7

REPORTABLE CONDITIONS:

FAIR ACQUISITION OF TENTS

- Fair staff will work with Audit Office directly during the 2009 Audit (of FY 2008) to adjust asset value and corresponding depreciation.
- The tent/equipment parts will be marked and inventoried over the next 12 months.
- The fair will consistently utilize Fair letterhead for correspondence and financial transactions.
- The Fair is now aware of the \$50,000 DGS Purchasing limitation. In the future, the Fair will obtain current Purchasing Limit guidelines from DGS prior to making any significant transactions.
- In the future, all written agreements between the Fair and a third party will clearly state all terms and conditions.
- The Board of Directors granted the CEO a \$1000 purchase authority in 2007. Anything over \$1000.00 required a second signature, which was obtained at the time of the purchase.

EXCESSIVE PAYMENTS

- The fair had not received the memo issued by DPA with regard to limitations on cashing out vacation hours. However, with the State Furlough program currently in effect, the repayment of these hours will not be economically viable for the two affected employees. Receivables will be established in the future when feasible.
- To avoid future delays in receiving memos and correspondence from DPA, the Fair has signed up for email service with the agency.

ACCOUNTING FOR FIXED ASSETS

- This project was established/funded by CCA. In speaking with the Project Manager at the time, it was our understanding that it was to be capitalized. An adjusting entry will be made for the \$12,105 and depreciation will be adjusted accordingly.

JUNIOR LIVESTOCK AUCTION

- Fair Bookkeeper will continue to work with Audit Staff to reconcile the JLA.

STANDARD AGREEMENTS

- In the future the fair and the contractor will make amendments to the contracts as required.
- In the future, the fair will post the award of a contract for at least five working days.
- The fair will refrain from executing multiple agreements for services that have already been contracted for from the same contractor.

GOLD COUNTRY FAIR – Audit Response (FY 2007)

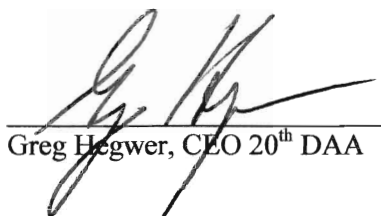
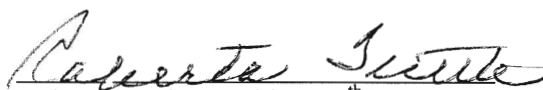
NON-REPORTABLE CONDITIONS

CASH ACCOUNTS

- The online banking system provides a unique method of delivery for payments. The January 16th date mentioned in the report is the latest date the payment was to be *received* by the vendor. It gives the online-banking client an idea of when they can expect a credit on their account. This is well within the reasonable limits of A/P reconciliation.

ACCOUNTS PAYABLE

- The amounts noted were *unexpected* expenses that we encountered in 2008 for expenses that occurred in 2007. Our office was unaware of these specific situations. Had we been aware of these issues, they would have either been paid in 2007 or entered as outstanding liability for the year-end. The Prior Year Adjustment account was established for just these circumstances and was appropriately used for these expenses.


Greg Hegwer, CEO 20th DAA
Roberta Tuttle, President 20th DAA

CDFA EVALUATION OF RESPONSE

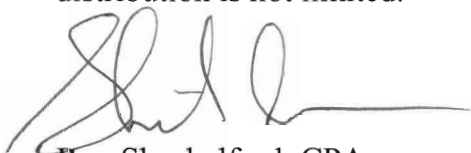
A draft copy of this report was forwarded to the management of the 20th DAA, Gold Country Fair, for its review and response. We have reviewed the response, and disagree with the Fair's response to our audit report section titled "Compensated Leave Liability."

The Fair acknowledges the excess payments made to employee but cites that "repayment of these hours will not be economically viable for the two affected employees," and chooses not to establish employee receivables at this time. As a State agency, the Fair has no alternative but to follow the policy established by the Department of Personnel Administration. Furthermore, Government Code Section 19838 requires reimbursement for overpayments made to employees, and SAM section 8776.7 details the options available for collecting amounts that were overpaid to employees. The reimbursements for overpayments are required by State policy and law. The Fair should immediately establish the employee receivables and work out a schedule of repayment as soon as possible.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between June 16, 2008 and June 27, 2008. My staff met with management on June 27, 2008 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.



Ron Shackelford, CPA
Chief, Audit Office

June 27, 2008

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